KEYSPAN ENERGY DELIVERY NEW ENGLAND
D.T.E. 05-68

SECOND SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY TO
KEYSPAN ENERGY DELIVERY NEW ENGLAND

DTE 2-3

Date: February 14, 2006
Respondent: Leo Silvestrini

Q. On page 12 of the Company's filing, it states that the End-Use Model simulates how customers will adjust their level of energy consumption in response to changes in energy prices. Explain how the Company forecasted the energy prices (e.g., natural gas prices, electricity prices and oil prices). Please present a measure of reliability of the energy price forecast.

A. As described below for each fuel, the Company forecasted natural gas and oil prices in two components: (1) commodity prices for natural gas and oil from Global Insight, and (2) transportation/distribution costs based on the Company's rate tariffs and estimates of oil distributor margins. For electricity prices, the Company used a forecast of provided by Global Insight.

Natural Gas

The natural gas price forecast begins with an annual forecast of well-head gas prices that the Company obtains from Global Insight. The Company applies the annual rate of change of the well-head price forecast to the commodity component of the latest available cost of gas adjustment charge ("CGAC") calculations. Next, the Company adds the projected variable pipeline costs and losses to derive the city-gate commodity price. Then, the Company forecasts changes in the demand charges billed through the CGAC by applying the rate of change of the forecasted Gross Domestic Product Implicit Price Deflator (from Global Insight) to the demand charges in the latest CGAC calculations.

The gas distribution charge forecast starts with the existing base rates for each Massachusetts local distribution company and adjusts them for changes in the forecasted Gross Domestic Product Implicit Price Deflator less a productivity factor mirroring the Boston Gas performance based rate formula. Together, these forecasts of the CGAC and base rate components of a customer's bill determine the natural gas price forecast.

Oil Prices

The oil price forecast begins with an annual forecast of the refiners acquisition cost of crude ("RACC") oil that the Company receives from Global Insight. The Company applies the annual rate of change of the RACC forecast to the No. 2 oil terminal cost to derive the commodity cost oil. Next, the Company adjusts its estimate of the oil dealer's distribution margin by the annual rate of change of the Gross Domestic Product Implicit Price Deflator. Together, the forecast of the commodity cost and the distribution margin determine the oil price forecast.